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ARIZONA

LABOR MARKET INFORMATION NEWSLETTER

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Unemployment Rate

Seasonally Adjusted
April*

ARIZONA	–	4.6%
Maricopa Co.	–	3.9
Pima Co.	–	3.2
United States	–	6.6

Consumer Price Index

U.S. – April 1991
Base = 1982-84

Wage Earner/Clerical Worker	–	133.3
% Chg. Year Ago	–	4.7
All Urban	–	135.2
% Chg. Year Ago	–	4.9

Phoenix – 1st Qtr 1991
Base = 1982-84

All Urban	–	135.2
% Chg. Year Ago	–	2.8

Tucson CPI No Longer Available (see May '91 *Arizona LMI Newsletter*)

* Preliminary

Rising Tide

Economic Development Agencies Look to Third Wave of Strategies to Stimulate Growth

Inside This Issue **Page**

Economic Development Agencies Take New Approach	2
Group Studying Arizona Economic Climate	3
State, Cities Need To Rethink 'Development Strategy'	3
The Arizona Labor Force in April	9
Arizona Labor Force Statistics	10
Arizona Personal Income Grows Slowly	16
New Developments	18

Public-Private Pacts Characterize New Wave of Economic Development Policies

As Arizona is currently in the process of forging an economic development plan for the future (see p. 3), it is important to understand past economic development strategies and what approaches are currently being used. The following article, reprinted in part from the October 1990 issue of *LMI Review*, a quarterly review of Washington State Labor Market Information, traces the recent history of economic development efforts in this country.

Today, state and local officials and economic development professionals find themselves in an increasingly difficult bind. On one hand, federal and state budget problems are choking off public resources available for economic development activities. On the other hand, poll after poll shows that voters hold elected officials — especially their governors — responsible for the performance of their local economies.

Fortunately, state and local economic developers across the country are in the process of inventing a new generation of development strategies that respond to these conflicting demands. These policies offer a way out: more economic impact for the public dollar. They are the emerging *Third Wave* of public economic development practices of the past half-century.

To understand this latest wave of change (still gathering force and only recently visible), it is helpful to put it in context, to examine the imprints left in the wake of its preceding waves, to see the broader revolution that has been changing the rules of the economic development game.

Until a decade ago, most economic development strategies had a single focus: recruit new plants from outside the state. How? Offer them low-cost investment locations and public financial incentives.

The basis of the gathering Third Wave (of economic development strategies) is a new realization: while government is responsible for assuring that its people and businesses have access to the resources necessary to pursue economic success, it does not have to be the sole supplier of those resources.

Born in the South in hopes of luring manufacturing branch plants from the North with offers of cheap non-union labor, cut-rate land prices, and low taxes, this industrial recruitment or "smokestack chasing" strategy worked well for quite awhile. During the 1950s and 1960s, adherents in the South experienced dramatic employment and wage increases relative to the rest of the county.

As northeastern and midwestern industrial states began to feel the impact of these aggressive assaults on their manufacturing firms, they fought back with *First Wave* policies of their own. States from one corner of America to another enacted their arrays of expensive tax abatements, new job tax credits, training programs, low interest loans and other government subsidies to lower the cost of doing business. In virtually every state, doing economic development meant organizing an industrial sales force in the state's economic development agency and arming it with a menu of subsidies to lure footloose plants and back-office operations across state lines.

The reason *First Wave* development policies worked from the '50s to '70s, especially in poor states, was because at that point corporations were seeking the cheapest locations for branch plant operations that relied primarily on the use of unskilled labor. Moreover, most firms limited their searches to the continental United States.

However, by the late-'70s and 1980s, evidence was growing that *First Wave* policies were losing their effectiveness. The South's success at closing its income gap with the rest of the country crested in 1976, after which the gap started growing again. Textile mills lured from New England to the Carolinas a decade earlier collapsed or fled offshore to cheaper venues in record numbers. Manufacturing states like Michigan, Pennsylvania, and Ohio found that after the 1980-82 recession, smokestack chasing no longer provided a means to generate enough new jobs or overcome problems in their traditional industries — automobiles, steel, machine tools, rubber — that were losing both U.S. market share and jobs.

The Forces of Change

What happened? Two separate but related forces undermined First Wave policies.

The Economy Went Global. First, America was forced to participate more fully in the international economy. National boundaries became much less important in economic decisions. Whereas in 1960 only 20 percent of U.S.-produced goods faced foreign competition, by 1980 more than 70 percent were fighting off international competitors. Dramatic decreases in transportation and communication costs made it easier to ship existing production technologies to wherever the cheapest available workforce lived. Companies looking for cheap, unskilled labor and low-cost locations were no longer confined to the United States. As inexpensive as rural Mississippi or some Sunbelt locale might be, Mexico was cheaper, and Sri Lanka cheaper yet. No matter how large their incentives or low their wages and taxes, U.S. communities could no longer compete as the lowest-cost location for production.

Technology Got Sophisticated. Even while Third World nations were threatening U.S. markets with bargain goods, some industrialized European and Asian competitors were challenging us with higher

(Continued on page 6)

Arizona Studies Options to Improve Economic Climate

Economic development — the buzz word of the '90s. Anywhere you go in Arizona (or most other states), the topic of conversation seems to be economic development. Walk into a Valley barber shop and talk turns to high rises and employment instead of gossip and the weather. Fans attending an Arizona sporting event are more likely to chat about industry clusters or strategic assessment than football huddles or game strategy.

And during the coming months — as Arizona prepares to make major policy decisions that will affect the state's future economic climate — those magic words will become as common place in the lexicon of residents as cactus and Grand Canyon. These decisions, mandated by state legislation, will come after years of haphazard development and infighting among Arizona cities trying to lure businesses with little concern about the overall implications — economic and esthetic — to surrounding areas and the state.

In 1989, after seeing how special deals and intrastate competition were hurting, not helping, economic development efforts (plus losing out on major projects like the supercollider), the state enacted the Omnibus Economic Development Act. The law empowered the Arizona Department of Commerce to assess the state's business climate and develop a blueprint for strategic economic development.

Prior to the law's passage, however, a statewide non-profit organization supporting business development, the Enterprise Network, had already started designing a strategic plan. So, the Commerce Department decided to pool its resources and form a public-private partnership with the Enterprise Network and the state's three major economic development groups — the Arizona Economic Council, Greater Phoenix Economic Council, and Greater Tucson Economic Council. The result was ASPED, or Arizona Strategic Planning for Economic Development.

Subsequently, ASPED selected SRI International of Menlo Park, Calif., to lead several other research organizations — Arizona State University's Morrison Institute, DRI/McGraw-Hill, and Landry & Associates — in helping develop a comprehensive, long-term economic development strategy for Arizona. And then it was decided to break the process into three stages.

Phase I, called Strategic Assessment, which began in November and was recently completed, called for analysis of Arizona's economic strengths and weaknesses; identification of competing, complementary, and interdependent industry groups (clusters); and determination of economic foundations (e.g., skills of workforce, available capital) that support the clusters' development. In February, a 200-page draft report of the group's findings, called *Arizona At The*

State, Cities Need to Change Vision of 'Development'

COMMENTARY

Recently, there has been a flurry of media and political attention given to economic development in Arizona. This activity isn't restricted to this state; it's occurring, more or less simultaneously, in every state that experienced significant employment growth or loss during the past 20 to 30 years.

What's behind this frenzy of activity?

Arizona recognizes that it's losing an economic battle with other states and countries to attract business. Of late, Arizona's growth has come from low-paying jobs in the service-producing sectors and this realization is fostering controversy over the method of solution. A consensus of the method of choice hasn't been reached yet, but two recent economic development events demonstrate the differences between the old strategy and a new approach.

This article has one goal: to help distinguish between a significant economic-development event and an event that was "development" in appearance only. So, I ask the reader now and at the end of this article to choose which of two recent events in Arizona has the greater significance: (a) acquisition of a firm creating 600 jobs supporting credit card processing or (b) Arizona State University's acquisition of physicist Ernst Bauer, inventor and possessor of two of five, low-energy electron microscopes.

Economic Development History

Prior to World War II, Arizona's economy was based on agriculture and mining. During the war, military installations were attracted by the state's huge tracts of unpopulated land. These military bases in turn attracted a defense industry to support them as well as other military installations in the nation. Motorola was one such company and is currently Arizona's largest private employer.

After the war, many former military personnel remained. Others were attracted by the climate (and summer-cooling devices), low costs, and the availability of jobs due to the growth that had transpired. The post-war 1950s brought a boom in construction, real estate, business/financial services, and retail/wholesale trade to accommodate and support the in-migration.

This same industrial group led in employment gains again in the 1980s. Growth itself became an industry. News of growth fed growth in construction, real estate, small business/financial services, and trade for 30 years. Arizona was one of the

population-growth leaders during this 30-year period.

A lack of planning, however, is evident from this last growth period. The Valley is sprinkled with many small businesses and homes, haphazardly clustered and scattered with no apparent complementary or competitive connection. A tour of the Phoenix area brings thoughts like: "The last one of those we saw was a mile ago."

Some of Arizona's other major cities provoke a similar impression. Only rarely does one encounter any form of business or industry that captures our attention and leaves an impression that it is a leading firm or industry and is supported by or competes with another firm or industry. And how about the roadways we transverse on this tour; until only about a year ago, we spoke of *the* freeway.

Metropolitan areas like San Francisco or Los Angeles instill more of a sense of reason and purpose. In these cities, we find a center involved in major capitalization, and though many miles distant, we find the high-tech manufacturing region. In between is a Stanford, University of California at Berkeley, UCLA, or California Institute of Technology, along with the many small businesses clustered near and utilized by the inhabitants of suburbs that also occur in clusters, albeit large. It isn't difficult to understand how these elements of the economy support and complement one another.

Similar, but rare and still evolving sites in Arizona are in part due to the intentional economic development efforts of the 1970s and '80s. This phase of economic development continued to rely on the attractive power of climate, low-cost land, and low-cost labor. It targeted firms, all firms, disenchanted with the economic climate of their region.

Like the people who came here in search of a job to replace the one they had lost, these firms came from the Midwest and East Coast. "Sunbelt" became a buzz word and moving to it became a trend. Little or no effort was required of Arizonans to attract new businesses. During this period, too, municipal and urban-planning were initiated to begin preventing the haphazard "urban and industrial sprawl" of Arizona's cities.

Crossroads — Strategic Assessment, was sent out for review to local economic officials with a final report expected to be released in June.

In its assessment of Arizona's economy, the preliminary report pointed out what many area officials have been saying for quite some time: while on the surface the state's economy looks positive (e.g. low unemployment rate, faster employment growth than the U.S. average), on closer scrutiny there is a "picture of a less robust, more vulnerable economy" that in the last several years has been dependent on low-paying industries for employment growth, which has led to an overall lower-standard of living.

In addition, the draft report said that as the state moves into the '90s and beyond, it will have to rely on higher productivity (e.g., more advanced skills, better use of technologies, more sophisticated entrepreneurship) as opposed to in-migration, corporate relocation, and tax-law-induced construction projects that drove the economy until the mid-'80s. Also, the report said, Arizona needs "to develop competitive clusters of industries that bring more wealth into the state and build strong linkages within the state ... ." Eight clusters of industries were identified in the preliminary report (see "State, Cities Need to Change ... ," p. 3).

Between now and November, ASPED will use Phase II (Strategic Planning Process) to identify goals, set priorities, and develop directions for a strategic economic plan for Arizona. Three simultaneous activities will be conducted to accomplish this process and create areas of consensus: 1) officials from the cluster groups will discuss their needs and objectives, 2) people from economic foundation areas that support cluster groups will consider the needs of the key industries, and 3) regional town halls and forums will be held around the state to get the general public's input.

By the end of November, ASPED will issue a final plan that will narrow the focus of the assessment into five or six major initiatives, some of which may call for special legislation (e.g., creation of a job training program). Following that, in Phase III (Implementation) will be the actual start of the plan.

Doug Henton, assistant director for SRI International's Center for Economic Competitiveness, says the final strategic plan will focus on " building stronger public-private partnerships," a new approach being taken by economic development officials in recent years (see "Public-Private Pacts ... ," p. 2). "Government doesn't have the resources to do it itself," he adds.

An example of public and private industry combining forces, Henton says, would be the co-development of a product by a university and a private company. The university may be involved with research, while a private business manufactures and markets the product. Areas within the public-private partnership that will be stressed are technology and capital-development markets, he says.

—Brent Fine
Arizona LMI Newsletter Editor

Evolution of New Strategy

The new economic development philosophy evolved out of the municipal and urban planning philosophy of the '70s. Planned communities promised home buyers a self-sufficient place to live; something like a balanced ecosystem. Advertising focused at regaining the feelings of a small-town atmosphere, combined with convenient shopping and schools, were powerful attractants to buyers.

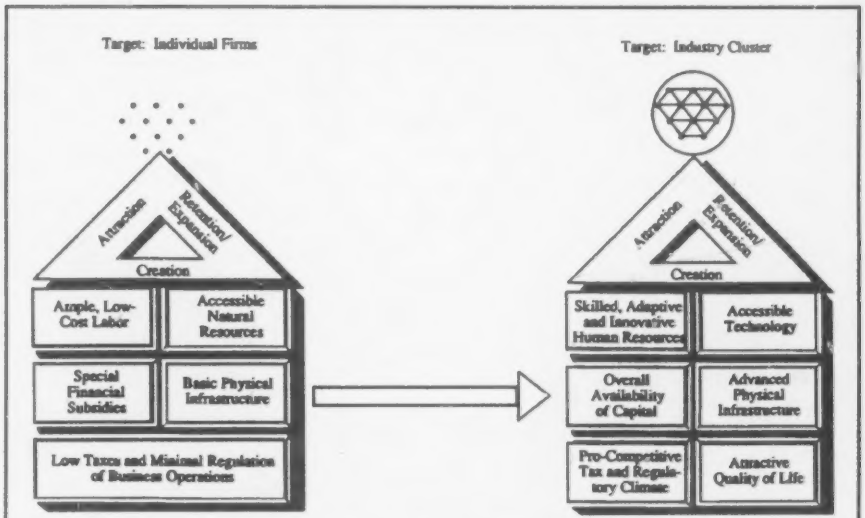
This concept of balancing, integrating, and clustering essentials for survival within a fixed space was subsequently adopted by some industries. Here, it is best illustrated by a Phoenix-based health-

service company that adapted this "cluster" concept to its needs in the early '80s.

This company defined and evaluated its business-life-sphere. It set out to vertically integrate itself. This created supply lines for patients, resources, research, and finance that extended beyond traditional in-town service areas. County and state borders were irrelevant if a necessary niche in their business-life-sphere existed elsewhere.

This firm formed partnerships in and outside of Arizona which included government, education, and the private sector. Through an urban planning partnership with city government, it surrounded its hospitals with a full spectrum of services. These, by design, were complementary, but not necessarily controlled or owned by the health-service firm. This strategy has proven to be successful for this company.

Figure 1. Economic Development Agencies Changed Their Strategy in the '80s.



Source: Arizona At The Crossroads — Strategic Assessment, Center for Economic Competitiveness, SRI International, Draft Report, February 1991

Core Industries Identified

The new economic development approach adapts this business strategy, on a larger scale, to a state's economy. The first steps in identifying Arizona's present business-life-sphere were recently taken by SRI International, a California consulting firm, which identified Arizona's core industries for the future. In its recently released strategic assessment, SRI International named the following economic clusters as the state's economic core industries:

- Information industries: electronics, computers, communications, and software
- Tourism industries: hotels, resorts, retirement communities, and film industry
- Aerospace and defense industries: aircraft, space, advanced materials, instruments
- Business services: business, financial, engineering and accounting
- Health and biomedical industries: health services, instruments and supplies, optics
- Transportation/distribution industries: air transportation, trucking services
- Mineral and mining industries: nonferrous metals and mining
- Agriculture and food processing industries: livestock, food products

The new strategy focuses on acquiring, or nurturing, existing firms (industry clusters) that supply resources to or consume the products of these industries. The strategy will be applied selectively to businesses that add wealth to the economy through the creation of quality jobs. Quality jobs occur in forms of business that utilize higher technologies or skills. Attracting quality jobs is the goal.

Recognize the complexity of integrating complementary and competitive "value-added" industries. Recognize that a partnership of political and business forces is a challenge. But don't get lost in the enormity and complexity of this undertaking, because it's really quite simple.

The new economic development philosophy is founded in simple human bonding and biosphere concepts: (1) people who need people for survival and (2) businesses that need businesses for support and competition to maintain a balanced — but evolving and prosperous — economy. It means defining and evaluating Arizona's business-life-sphere, then acquiring or growing the missing elements and nurturing the foundational elements we already have.

The past 30 years of unplanned economic development have proven that growth and prosperity don't always follow the same course. Arizona's real per-capita personal income (PPI) has always been lower than U.S. real PPI, although there have been substantial periods of convergence. And the gap between Arizona's per-capita income and U.S. per capita income is presently increasing (see "Arizona Income Growth ... ," p 16). The reason for this is that our employment growth has been predominantly in lower-pay, lower-skill jobs. We grew up, but we failed to mature. This new strategy is focused on maturation.

The increasing disparity between our wealth and the U.S. average directly affects quality of life. The historical attractant to Arizona is losing power as the state becomes poorer relative to the rest of the country.

International economic dependence is breaking down political barriers. State

and even national borders have less relevance today. Businesses that serve only Arizona are in a less-competitive position. Low-paying assembly and manufacturing jobs will likely suffer cutbacks if the U.S.-Mexico Free Trade Agreement passes. (As of late May, an agreement appeared likely.)

The affected firms may find themselves faced with changing their product lines to remain solvent. And, if these firms fail, Arizona will need to find replacement firms. In either case, the individual, the firm, and the public will need to make decisions concerning the fate of workers. Will the firm or the public support retraining or will these people just be left to their own resources?

Also, the effect of reduced defense spending is a question mark. Many of Arizona's high-tech manufacturers, which are important to Arizona's future gains in quality jobs, are dependent on defense contracts. The Persian Gulf War could alter previous decisions to cut back. However, the profound changes that have occurred in Eastern Europe suggest that in the long term, defense spending will decline. The new strategy will probably favor those firms that redirect their efforts toward commercial applications.

And the Midwest and East Coast companies that used to be easy targets for Arizona's economic developers have restructured, improved productivity, and are now more successfully competing with the world. The Sunbelt's power to attract firms from these historical sources of new jobs has lost some its edge.

Finally, in Arizona, low-cost labor means low-skilled labor. Because this is known to out-of-state employers, it is not an advantage in attracting higher technology industries. A perception that Arizona lacks a high-skill labor pool has been the deciding factor against a decision to move here for some firms.

600 Low-Paying Jobs or One Scientist

The legislation that made Arizona more attractive to credit card processing centers was motivated by the old philosophy that all job creation is good. In fact, the addition of these jobs adds incrementally to the pool of low-cost, low-skill labor that already exists in overabundance.

This kind of indiscriminate job creation just contributes to making Arizona poorer. And in what way is this form of business complimentary to our existing economic structure? How does it support other forms of business? How does it enhance our financial sector where the weakness is major capitalization?

The low-energy electron microscope supports research and commercial applications in the fields of supercomputers, superconductors, physiology, and medicine. Our proximity to the electronics industry in California and our possession of this technology translates into an attractor of high-skill, high-pay jobs. The industries that this machine supports are clearly some of those recommended for the future. The presence of Ernst Bauer translates into attraction of the "best and brightest" students and scientists.

Attraction of Doctor Bauer is an example of holistic economic development. Going after credit card processing companies is an example of traditional "job-chasing" economic development. The multiple benefits derived from a single holistic economic development event are compelling reasons to embrace this new strategy. The strategy will likely be viable, though, only in an atmosphere of government and business cooperation and collaboration.

—Chris Hedin
Labor Market Information Supervisor

Economic Development Policies Begin Shift in '80s

(Continued from page 2)

quality goods. In some cases, better organized workers or production processes produced the higher quality. But in many other countries — especially Japan and Germany — better product development was also related to the sophisticated use of new computer-based information technologies.

As more and more companies in Asia, Europe, and the United States were demonstrating, you could still lead in goods and services production in the face of Third World low-wage competition. But to do so required the ability to customize previously mass-produced products with better quality to satisfy niche markets. This, in turn, generated a growing demand for more educated workers and technology capabilities. These resources were not central to most *First Wave* strategies.

Along with these changes, states also began to focus on where their jobs were coming from. New studies revealed that recruitment ranked a distant third as a source of new jobs. Instead, existing-firm expansions and start-up businesses were creating 80 to 90 percent of new jobs in most states. At best, recruited companies were producing the 10 to 20 percent remaining — and in many states with aggressive recruitment policies, it had fallen to less than 10 percent.

Indeed, MIT researcher David Birch, in his pivotal paper, "The Job Generation Process," documented that growth-oriented small businesses — not the targets of recruitment efforts — were the leading source of job creation in this country. His finding was verified by the Brookings Institute and the Small Business Administration, among others.

As governors consulted with state business leaders about how to respond to these new forces, they began to hear a new set of concerns. They heard that key economic competitors primarily Japan and West Germany — were now beating the United States, but not by virtue of low cost. They were beating domestic firms on dimensions that were increasingly more important in international competition: workforce quality, access to technology, capital availability for modernization and new product development, market intelligence, and other opportunities.

Gradually, state policy-makers realized a new economic truth. It was no longer enough for the U.S. enterprise to be free, though that was still essential. It now also

had to be competitive. Case in point: it had not mattered 20 years earlier if 20 percent of General Motors' workers were functionally illiterate — because 20 percent of Ford's and Chrysler's couldn't read either. But when Japan emerged a major competitor and 100 percent of the Toyota City workers could read, U.S. firms found themselves at an important competitive disadvantage.

The Second Wave Is Born

As the 1980s unfolded, a *Second Wave* of economic development policy began to take shape. What changed was focus. Development practitioners no longer gazed outside state borders, they concentrated on homegrown or indigenous economic development activity. States began to realize that to help their existing firms and attract new investment, the production inputs in the local economy — a skilled workforce, risk capital, available technology, sophisticated management information, and modern telecommunications — would have to be world-competitive in quality and cost. State government's new role was to ensure that their resources or competitive capacities were available.

States began fashioning a rich variety of experiments in *Second Wave* capacity-building. Dozens of states launched public programs to: close the capital gaps discovered in state financial markets, modernize small- and medium-size manufacturing firms, accelerate the development and transfer of new technologies from university to business, improve worker skills, equip entrepreneurs with management information to support higher rates of new business information and growth, and actively encourage exporting.

Indeed, as the 1980s closed, a *Second Wave* action consensus had crystallized in America's state capitals. David Osborne, in his influential "Laboratories of Democracy," noted that during the '80s states had established more than 100 public investment funds and 25 public venture capital funds, and launched more than 200 programs to stimulate technological innovation.

The Corporation for Enterprise Development's 1990 Development Report Card for the States showed those figures increasing and further documented that 47 states had undertaken specific education reform measures, as well as efforts to improve the quality and productivity of their workforces. Indeed, the National Association of State Development Agencies, when it last surveyed the states about development expenditures in 1988, found that roughly two-thirds of the states reporting allocated more budget resources to strengthening in-state businesses than attracting outside businesses.

It's not that *Second Wave* adherents have abandoned industrial recruitment. They still market themselves aggressively to outside investors. But they do so knowing that footloose plants will produce only a marginal number of new jobs. And they recruit with the knowledge that cost is no longer the strongest magnet for new investment — rather it is an economic environment rich with the human, technological, financial, and infrastructure resources that support existing firms and entrepreneurship.

The achievements of this quiet *Second Wave* revolution are significant. State after state has been bit by ongoing industrial restructuring. Those states that have cultivated homegrown enterprise and made long-term investments in their underlying competitive capacities have been able to come back from such industrial shocks. *Second Wave* public policies appear to have contributed something to these recoveries.

Responsible state officials, strongly convinced that the dramatic shift to *Second Wave* policies has given state economic development efforts the right focus, feel growing apprehension about whether state agencies can perform *Second Wave* tasks well. In state after state, policymakers privately concede that the real impact of *Second Wave* programs seems to be considerably less than the sum of their parts.

Marginal improvements in the right direction can be cited over and over again. But too often results do not seem transformational enough to reposition state and local economies to meet the new global competition. In short, more and more leaders are questioning whether the programs they have initiated are making a big enough difference.

And so debate is shifting — from what needs to be done (where the indigenous development, capacity-building consensus is quite firm), to how to do it effectively. In fact, even as capacity-building policies establish a positive record, four serious limitations that restrict their impact are emerging.

Scale is lacking. Most state indigenous development efforts lack the scale needed if local business practice is to attain global standards. For example, most states, recognizing that seed and venture capital

Waves of Economic Development Policies

First Wave — Born in the South during the 1950s and '60s — as a way to lure manufacturing plants from the North — the *First Wave* grew as states that lost jobs began fighting back by offering tax abatements, job tax credits, training programs, low interest loans, and other government subsidies to lure business. Began losing impact in the late '70s and 1980s.

Second Wave — Started in the 1980s as economic development agencies began focusing on boosting existing businesses and attracting new investment. To accomplish this, officials knew they had to make production inputs — skilled workforce, risk capital, available technology, and telecommunications — world competitive in quality and cost.

Third Wave — Begun in recent years — and expected to be the approach of the '90s — this policy continues the internal development aspects of *Second Wave* policies, but looks to more innovative organizational techniques (e.g., public-private partnerships) to make *Second Wave* strategies succeed.

are critical to the creation of new firms and the development of new products, have created special funds to fill gaps in the availability of venture and seed capital. Yet, for the most part, these funds rarely exceed $5 to $10 million. Compared to the hundreds of millions of dollars a state's businesses may need in any given year, the funds are a drop in the bucket.

Similarly, state efforts to improve workforce skills typically center on short-term training for a few thousand people a year. Yet workforce experts predict that every American worker will need retraining at least once or twice during his or her career with continual skill upgrading.

Service is fragmented. The *Second Wave*, zealous in covering every capacity need, wants for an important component of effective service. *Second Wave* effort is fractured, according to those capacity needs, with a separate program addressing each one. One program helps train workers, but is out of touch with the latest technology applications. Another helps identify practical ways to apply new technologies, but disclaims any knowledge of responsibility for capital availability to finance new equipment.

Programs lack accountability. Second Wave programs typically are not accountable to their customers. Few states, if any, accurately measure the performance of individual programs, much less their collective performance. So it is difficult to tell what has worked, or to learn from what has not.

A link is missing. Second Wave strategies still short-shrift the link between economic and social concerns. Established economic development approaches generally embody the perspective that all boats will be lifted by a rising economic tide. They often do not reach the people most in need. The 1980s proved that social and economic inequalities can grow during periods of economic expansion. Separating social issues from the economic development agenda serves only to exacerbate the situation.

The Third Wave Emerges

Growing awareness that state governments must invent new organizational approaches to make *Second Wave* policies truly effective has set off a *Third Wave* of experimentation in the states. The basis of the gathering *Third Wave* is a new realization: while government is responsible for assuring that its people and businesses have access to the resources necessary to pursue economic success, it does not have to be the sole supplier of those resources.

"The transition from the second to the third wave, by contrast, involves important changes in organization: policy continues to focus on internal development, but new organizational approaches are used to pursue that objective."

—Scott Fosler, Committee for Economic Development

Scott Fosler, vice president of the Committee for Economic Development, describes the progression succinctly: "The transition from the first to the second wave was largely a change in policy: states expanded their focus beyond industrial recruitment to encompass the internal development of the entire state economy.

"The transition from the second to the third wave, by contrast, involves important changes in organization: policy continues to focus on internal development, but new organizational approaches are used to pursue that objective."

Examples of the burgeoning state efforts to create *Third Wave* governance approaches abound. Most of these initiatives incorporate the decentralization pioneered to make *Second Wave* efforts more effective. And most move away from government as sole service provider, instead using limited government finances and authority to engage other public and private institutions in meeting development needs.

Virtually all the *Third Wave* initiatives are still too new to assess their long-term effectiveness. Despite that, and even though they differ widely, we can now identify a set of principles around which states are constructing their *Third Wave* experiments.

Demand drives them. Government resources are appropriately dedicated only if what they produce is valued by the intended beneficiaries. Real demand must exist, whether it's small business' need for management information, manufacturers' desire for new technology, or workers' insistence on practical retraining opportunities for real jobs. *Third Wave* governance posits that such demand is best verified when the intended beneficiaries must invest some of their own time or resources in order to obtain the desired service.

Indiana, Michigan and Ohio recently launched manufacturing network initiatives that exemplify this. Groups of private manufacturers in these states have the primary responsibility to define their common competitive needs, like improved worker training, process modernization or new market identification. Only after sector-specific networks have defined these service needs and have agreed to invest significant energy and resources in them, will the state agree to invest.

The leverage resources. The Great Lakes' state networks make another point. As already stated, government resources are virtually always inadequate to meet the scale of the development challenge at hand. To fully meet the true capacity demand, other institutions must dedicate their resources. *Third Wave* governance uses leverage and engagement techniques to attract private non-profit and for-profit, as well as non-agency public resources. This can move public agencies toward abandoning their direct supplier role in favor of approaches that encourage other organizations to commit their resources to supply the good or service in demand.

For example, Pennsylvania's Ben Franklin

(Continued on page 15)

The Arizona Labor Force in April

Arizona's unemployment rate continued its downward trend in April, falling to 4.6 percent, the fourth-straight monthly drop and the lowest rate since September 1984 when it was 4.5 percent. Maricopa County's rate was similarly low, dropping to 3.9 percent, its lowest level in six months. And Pima County's April rate, at 3.2 percent, was at its lowest level in 22 years, equaling the jobless rate of December 1969.

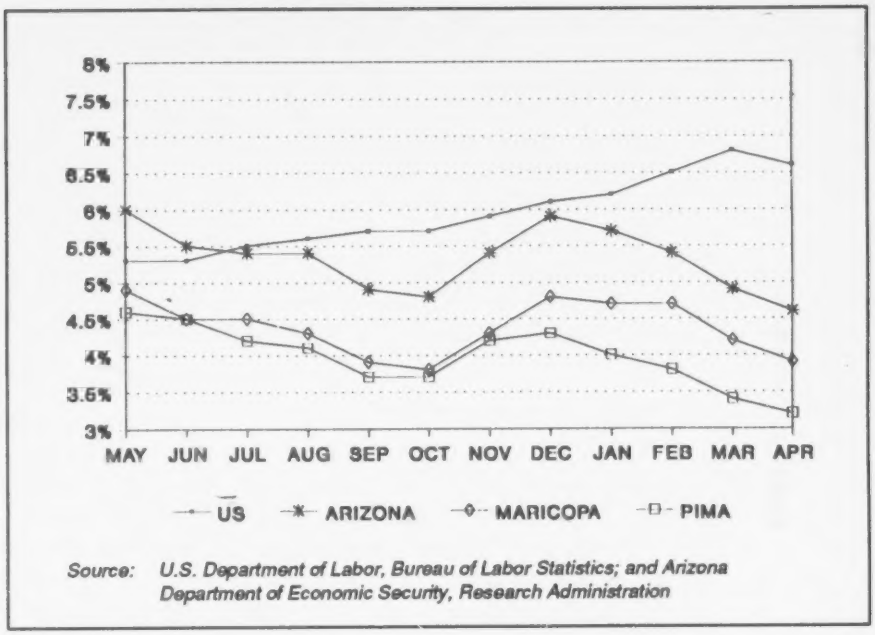
Reasons for Arizona's declining unemployment rate include a greater-than-seasonal shrinkage of the unemployed (down 5,700 when a 3,700 drop in April has been average for the last eight years) and the rapid growth of total employment (up 15,000 over March).

Unfortunately, wage and salary job growth was not consistent with total employment growth (wage and salary workers, plus self-employed, agricultural, unpaid family, and private household workers). In fact, Arizona lost 1,200 payroll jobs in April when gains of 6,400 are seasonally normal. Continuing weakness in manufacturing and construction, and added weakness in wholesale trade, services, FIRE (finance, insurance, and real estate), and state and local government caused the payroll employment loss.

Divergence between total employment and wage and salary jobs also occurred at the national level. BLS Commissioner Janet Norwood cautioned Congress to be wary of the April total employment estimates until they are supported by at least a second month of upward direction, because sampling error — not reality — may have caused the divergence.

Government was the biggest contributor of payroll job losses in April after posting an unseasonally high gain in March. While March's gain was concentrated among universities, April's losses were among schools of all levels. Government lost 900 jobs in April when a gain of 500 is the April average over the last eight years. In March, government gained 4,600 jobs when 2,300 is normal.

Figure 1. U.S., Arizona, Maricopa County,and Pima County Unemployment Rates, May 1990-April 1991



Source: U.S. Department of Labor, Bureau of Labor Statistics; and Arizona Department of Economic Security, Research Administration

Trade had the second-greatest loss in April — down 600 from March — with 500 of these coming in wholesale trade, which has a strong link to manufacturing, construction, and agriculture. Although retail trade lost only 100 jobs, a 900 gain has been the average for April over the last eight years. Similar weakness was indicated in trade industries nationwide.

Automotive trade was most responsible for the decrease in Arizona retail trade employment, posting a 500 drop. Although automotive sales have been weak nationally for the last several months, car manufacturers recalled 15,000 laid-off workers in April because demand had sufficiently drawn down inventories. Hopefully, May car sales in Arizona will lend credibility to Detroit's optimism.

Although Arizonans haven't been buying cars like gangbusters, they must have been eating out more. Eating and drinking places posted a 700 gain in April, 500 more than the eight-year average. April was the third-consecutive month restaurant and bar employment set a record, achieving a level of 110,400.

The services sector didn't lose employment in April, but its anemic gain of 500 measured against its average April gain of 3,600 over the last eight years is testimony to its relative weakness. While lodging services had near-normal seasonal gains (200), business services posted half-average April gains (400), and health services lost 400 jobs. Nevertheless, total services employment achieved a record level in April (421,100) as did two components, lodging services (45,800) and business services (80,100).

Finance, insurance, and real estate (FIRE) held steady at 95,300 jobs in April. Posting no gain in a month when a 600 gain is average, FIRE is mired in the same quicksand bogging down the construction industry — S&L failures and an overbuilt market. FIRE employment is down 900 from its peak level in December 1987.

Despite repeated efforts by the Federal Reserve to spur the economy through the lowering of interest rates, only modest success has been achieved with little noticeable effect in Arizona. Nationally,

(Continued on page 14)

Arizona Labor Force and Employment

April 1991 (in Thousands)

	ARIZONA					MARICOPA COUNTY					PIMA COUNTY				
				Amount	Change				Amount	Change				Amount	Change
	Apr.* 1991	Mar. 1991	Apr. 1990	Mar. - Apr.	1990 - 1991	Apr.* 1991	Mar. 1991	Apr. 1990	Mar. - Apr.	1990 - 1991	Apr.* 1991	Mar. 1991	Apr. 1990	Mar. - Apr.	1990 - 1991
TOTAL CIVILIAN LABOR FORCE**	1716.5	1707.2	1728.0	9.3	-11.5	1067.1	1059.7	1074.8	7.4	-7.7	317.9	314.4	315.1	3.5	2.8
Total Unemployment	76.8	82.5	91.8	-5.7	-15.0	41.2	44.6	46.8	-3.4	-5.6	9.9	10.8	13.1	-0.9	-3.2
Unemployment Rate	4.5%	4.8%	5.3%	—	—	3.9%	4.2%	4.4%	—	—	3.1%	3.4%	4.2%	—	—
Unemployment Rate (Sea. Adj.)***	4.6%	4.9%	5.6%	—	—	3.9%	4.2%	4.5%	—	—	3.2%	3.4%	4.3%	—	—
Total Employment	1639.7	1624.7	1636.2	15.0	3.5	1025.9	1015.1	1028.0	10.8	-2.1	308.0	303.6	302.0	4.4	6.0

Note: Above Labor Force Statistics Should Not Be Used for Economic Assistance Programs.

NON-AGRICULTURAL WAGE AND SALARY EMPLOYMENT BY PLACE OF WORK

TOTAL WAGE AND SALARY	1526.0	1527.2	1494.9	-1.2	31.1	1001.7	1003.6	985.8	-1.9	15.9	262.9	262.3	255.1	0.6	7.8
Manufacturing	181.4	181.7	183.7	-0.3	-2.3	135.3	135.5	137.5	-0.2	-2.2	25.8	25.9	26.0	-0.1	-0.2
Durable Goods	135.6	136.0	139.1	-0.4	-3.5	102.8	103.1	105.7	-0.3	-2.9	20.1	20.2	20.4	-0.1	-0.3
Stone, Clay, and Glass	6.3	6.4	6.7	-0.1	-0.4	3.6	3.7	4.0	-0.1	-0.4					
Primary and Fabricated Metals	14.2	14.2	14.1	0.0	0.1	9.8	9.7	9.5	0.1	0.3					
Primary Metals	6.3	6.3	6.2	0.0	0.1										
Fabricated Metals	7.9	7.9	7.9	0.0	0.0										
Machinery	57.5	57.9	59.9	-0.4	-2.4	47.6	47.9	50.0	-0.3	-2.4					
Aircraft and Missiles	26.5	26.7	26.8	-0.2	-0.3										
Lumber and Wood Products (Excluding Furniture)	6.3	6.1	6.6	0.2	-0.3										
Nondurable Goods	45.8	45.7	44.6	0.1	1.2	32.5	32.4	31.8	0.1	0.7	5.7	5.7	5.6	0.0	0.1
Food and Kindred Products	10.4	10.2	9.6	0.2	0.8	7.3	7.1	6.7	0.2	0.6					
Printing and Publishing	17.0	17.1	16.9	-0.1	0.1	11.9	12.0	12.0	-0.1	-0.1					
Mining and Quarrying	12.8	12.8	12.2	0.0	0.6	0.7	0.7	0.8	0.0	-0.1	2.3	2.3	2.1	0.0	0.2
Copper Mining	10.3	10.2	9.6	0.1	0.7										
Construction	77.2	77.0	80.9	0.2	-3.7	49.7	49.6	54.0	0.1	-4.3	15.0	14.8	14.5	0.2	0.5
Trans., Communications, & Public Utilities	81.8	81.9	81.9	-0.1	-0.1	58.0	58.0	58.0	0.0	0.0	9.4	9.4	9.2	0.0	0.2
Transportation	46.3	46.3	45.0	0.0	1.3	35.1	35.0	33.9	0.1	1.2	4.9	4.9	4.7	0.0	0.2
Communications and Public Utilities	35.5	35.6	36.9	-0.1	-1.4	22.9	23.0	24.1	-0.1	-1.2	4.5	4.5	4.5	0.0	0.0
Trade	378.8	379.4	368.0	-0.6	10.8	254.9	255.8	246.4	-0.9	8.5	60.8	60.7	59.6	0.1	1.2
Wholesale Trade	77.0	77.5	74.6	-0.5	2.4	61.3	61.7	59.7	-0.4	1.6	7.6	7.5	7.6	0.1	0.0
Retail Trade	301.8	301.9	293.4	-0.1	8.4	193.6	194.1	186.7	-0.5	6.9	53.2	53.2	52.0	0.0	1.2
General Merchandise and Apparel	47.4	47.4	45.9	0.0	1.5	29.0	28.9	27.9	0.1	1.1	8.7	8.7	8.3	0.0	0.4
Food Stores	50.5	50.6	48.6	-0.1	1.9	31.8	32.0	30.6	-0.2	1.2	8.9	8.9	8.4	0.0	0.5
Automotive and Service Stations	34.1	34.6	34.5	-0.5	-0.4	21.3	21.6	21.3	-0.3	0.0	5.4	5.5	5.6	-0.1	-0.2
Eating and Drinking Places	110.4	109.7	106.6	0.7	3.8	72.0	71.8	68.8	0.2	3.2	19.6	19.5	19.1	0.1	0.5
Finance, Insurance, and Real Estate	95.3	95.3	94.6	0.0	0.7	76.0	76.1	74.9	-0.1	1.1	11.7	11.6	12.3	0.1	-0.6
Services and Miscellaneous	421.1	420.6	406.8	0.5	14.3	284.7	284.8	277.7	-0.1	7.0	77.8	77.6	73.9	0.2	3.9
Hotels and Lodging Places	45.8	45.6	45.0	0.2	0.8	28.7	29.1	28.3	-0.4	0.4	6.7	6.8	6.8	-0.1	-0.1
Business Services****	80.1	79.7	78.0	0.4	2.1	63.8	63.5	63.1	0.3	0.7	11.5	11.4	10.7	0.1	1.8
Health Services	103.8	104.2	100.6	-0.4	3.2	67.0	67.4	65.6	-0.4	1.4	22.8	22.8	21.4	0.0	1.4
Government	277.6	278.5	266.8	-0.9	10.8	142.4	143.1	136.5	-0.7	5.9	60.1	60.0	57.5	0.1	2.6
Federal	45.8	45.6	47.5	0.2	-1.7										

* Preliminary

** Labor force, unemployment, and employment are reported by place of residence.

*** Normal seasonal variations have been eliminated to reflect underlying economic trends.

**** Business Services undergoes a series break between December 1987 and January 1988 as a result of the 1987 SIC realignment.

Note: Presented by the Arizona Department of Economic Security, Research Administration, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

Non-metropolitan Counties
Labor Force and Employment
April 1991

	Apache	Cochise	Coconino	Gila	Graham	Greenlee	La Paz
CIVILIAN LABOR FORCE*	14,550	35,350	45,325	12,950	8,225	3,275	5,450
Total Unemployment	1,650	2,275	2,375	975	475	175	325
Rate	11.3%	6.4%	5.2%	7.5%	5.8%	5.3%	6.0%
Rate (Seas. Adj.)**	13.6%	6.3%	6.4%	7.5%	6.1%	5.4%	6.6%
Total Employment	12,900	33,075	42,950	11,975	7,750	3,100	5,125
THE ABOVE LABOR FORCE STATISTICS SHOULD NOT BE USED FOR ECONOMIC ASSISTANCE PROGRAMS							
TOTAL WAGE AND SALARY	15,500	26,200	43,425	11,650	5,525	3,325	4,100
Manufacturing	450	1,025	3,400	1,425	225	25	275
Mining & Quarrying	25	100	100	1,300	0	1,900	75
Construction	475	850	1,525	675	150	250	300
T.C.P.U.	1,950	1,650	3,025	500	150	50	125
Trade	1,500	5,200	10,225	2,400	1,600	300	1,375
F.I.R.E.	475	650	825	300	125	25	150
Services & Misc.	5,225	4,975	11,100	2,325	900	175	900
Government	5,400	11,750	13,225	2,725	2,375	600	900

	Mohave	Navajo	Pinal	Santa Cruz	Yavapai	Yuma
CIVILIAN LABOR FORCE*	38,525	27,875	38,200	11,650	41,625	48,450
Total Unemployment	2,025	2,475	2,500	1,025	1,825	7,600
Rate	5.3%	8.9%	6.5%	8.8%	4.4%	15.7%
Rate (Seas. Adj.)**	5.4%	9.9%	6.7%	13.3%	4.4%	14.6%
Total Employment	36,500	25,400	35,700	10,625	39,800	40,850
THE ABOVE LABOR FORCE STATISTICS SHOULD NOT BE USED FOR ECONOMIC ASSISTANCE PROGRAMS						
TOTAL WAGE AND SALARY	28,200	22,075	31,200	11,550	29,475	29,325
Manufacturing	2,525	2,050	3,450	1,000	2,350	2,100
Mining & Quarrying	50	1,225	4,000	25	1,000	50
Construction	2,800	750	775	275	2,350	1,325
T.C.P.U.	1,325	1,525	1,075	775	1,100	1,125
Trade	8,375	4,075	5,625	5,475	7,975	9,000
F.I.R.E.	1,450	450	775	275	1,025	1,025
Services & Misc.	7,000	5,525	4,950	1,850	7,350	6,350
Government	4,675	6,475	10,550	1,875	6,325	8,350

* Adjusted to the Current Population Survey (CPS) to reflect place of residence.

** Seasonal adjustment not applicable for economic assistance programs.

T.C.P.U. = Transportation, Communications, and Public Utilities

F.I.R.E. = Finance, Insurance, and Real Estate

Prepared in conjunction with the U.S. Department of Labor, Bureau of Labor Statistics.

Estimated Hours and Earnings of Production Workers in Selected Industries Arizona

INDUSTRY	AVERAGE WEEKLY EARNINGS			AVERAGE WEEKLY HOURS			AVERAGE HOURLY EARNINGS		
	Apr.* 1991	Mar.** 1991	Apr. 1990	Apr.* 1991	Mar.** 1991	Apr. 1990	Apr.* 1991	Mar.** 1991	Apr. 1990
Manufacturing	419.69	424.85	405.82	40.2	40.5	40.3	10.44	10.49	10.07
Aircraft & Missiles	653.84	655.27	613.36	45.5	45.6	44.0	14.37	14.37	13.94
Food & Kindred Prod.	359.46	367.06	335.23	39.2	39.3	39.3	9.17	9.34	8.53
Primary Metals	513.22	501.55	461.55	39.6	38.7	36.4	12.96	12.96	12.68
Machinery	387.09	399.40	366.28	39.1	40.1	37.8	9.90	9.96	9.69
Copper Mining	661.70	657.41	594.51	44.8	44.3	44.3	14.77	14.84	13.42
Construction	444.38	439.56	432.61	37.5	37.0	36.6	11.85	11.88	11.82
Utilities	744.33	745.20	769.05	43.0	43.2	44.3	17.31	17.25	17.36
Retail Trade**	260.76	258.07	260.57	31.8	31.9	32.9	8.20	8.09	7.92
Wholesale Trade	406.56	400.90	383.13	38.5	38.4	38.7	10.56	10.44	9.90

Estimated Hours and Earnings of Production Workers in Selected Industries Maricopa County

INDUSTRY	AVERAGE WEEKLY EARNINGS			AVERAGE WEEKLY HOURS			AVERAGE HOURLY EARNINGS		
	Apr.* 1991	Mar.** 1991	Apr. 1990	Apr.* 1991	Mar.** 1991	Apr. 1990	Apr.* 1991	Mar.** 1991	Apr. 1990
Manufacturing	441.72	448.54	423.39	40.9	41.0	40.4	10.80	10.94	10.48
Construction	477.22	468.07	455.22	38.3	37.9	36.8	12.46	12.35	12.37
Retail Trade**	274.23	269.89	269.58	32.3	32.4	33.2	8.49	8.33	8.12
Wholesale Trade	434.72	434.71	404.30	38.1	38.3	38.8	11.41	11.35	10.42

Estimated Hours and Earnings of Production Workers in Selected Industries Pima County

INDUSTRY	AVERAGE WEEKLY EARNINGS			AVERAGE WEEKLY HOURS			AVERAGE HOURLY EARNINGS		
	Apr.* 1991	Mar.** 1991	Apr. 1990	Apr.* 1991	Mar.** 1991	Apr. 1990	Apr.* 1991	Mar.** 1991	Apr. 1990
Manufacturing	399.12	398.56	344.28	39.4	39.5	35.9	10.13	10.09	9.59
Construction	388.41	388.75	378.43	36.3	35.6	35.6	10.70	10.92	10.63
Utilities	615.09	618.10	587.85	41.9	41.4	39.4	14.68	14.93	14.92

* Preliminary.
** Revised
*** Excludes eating and drinking places.

Note: These estimates are based on a sample of full- and part-time production and related employees whose payroll and hours are reported for the pay period which includes the 12th of the month. Prepared in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

Arizona Labor Force and Employment for Economic Assistance Programs April 1991

County	Civilian Labor Force	Employment	Unemployment	Rate
Statewide	1,716,440	1,639,663	76,777	4.5%
Apache	14,549	12,889	1,660	11.4
Cochise	35,351	33,085	2,266	6.4
Coconino	45,327	42,942	2,385	5.3
Gila	12,946	11,978	968	7.5
Graham	8,217	7,738	479	5.8
Greenlee	3,282	3,104	178	5.4
La Paz	5,453	5,120	333	6.1
Maricopa	1,067,125	1,025,930	41,195	3.9
Mohave	38,510	36,495	2,015	5.2
Navajo	27,868	25,403	2,465	8.8
Pima	317,892	307,999	9,893	3.1
Pinal	38,221	35,711	2,510	6.6
Santa Cruz	11,646	10,629	1,017	8.7
Yavapai	41,622	39,803	1,819	4.4
Yuma	48,432	40,838	7,594	15.7

These figures are the only official BLS labor statistics to be used for revenue sharing purposes. They are not designed to be used as economic indicators.

NOTE: Series for Yuma and La Paz counties start January 1983. Data are not comparable to any past series.

Arizona Labor Force in April

(Continued from page 9)

the construction industry lost 20,000 jobs in April while Arizona's construction sector added 200. While the latter amount is unseasonally weak, it is the first April growth in four years. Arizona construction gains were in "general and special trades contractors" while "heavy construction," which includes road building projects, lost employment.

Finally, manufacturing, the sweetheart industry of economic developers, lost employment in April for the sixth-straight month. Down 300 jobs from March and 2,300 over-the-year, manufacturing has exhibited few signs that would offer hope for improved health in the months ahead. Most of April's losses were suffered by the high-tech components of machinery manufacturing (400) and aircraft and missiles manufacturing (200). Declining national defense budgets and overextended consumers are probably the cause.

In summary, the two programs used to measure Arizona's employment (Current Employment Statistics (CES) program and Current Population Survey (CPS)) are sending mixed signals about the current health of the state's economy. Unemployment rates and employment growth derived from the household survey (CPS) indicate these are the among the best of economic times for Arizona.

The establishment survey (CES), on the other hand, reports continuing weakness in the manufacturing and construction industries as well as added weakness in the trade and services industries. Over-the-year total job growth, at 2.1 percent, still ranks Arizona high among states, but the loss of 1,200 payroll jobs in April is a setback deserving notice. However, if the index of national leading economic indicators rises a third-consecutive time, Arizona's April job retreat is probably a temporary blip and Arizona job growth will soon resume.

—Ron Simon,
RA Economic Analysis Manager

Third-Wave Policies Seek Public-Private Pacts

(Continued from page 8)

Partnership program funds a number of advanced technology centers throughout the state, basing its dollar commitments on the financial match provided by a consortium of businesses and universities. Through the end of Fiscal Year '89, $110 million in partnership funds had been matched by some $400 million in non-state support, including $260 million in private business contributions.

Competition is encouraged. To ensure that the essential, world-class quality economic resources are available and integrated to meet customer needs, *Third Wave* governance relies on competition among resource suppliers. By rejecting its old role of monopoly supplier, a government agency seeks to ensure that several private and public providers of a needed good or service will compete for the business. In essence, this is an extension of stating that *Third Wave* initiatives seek to be customer-driven.

They build in automatic feedback. To become accountable, *Third Wave* efforts seek to build in feedback loops so automatic that they bypass political wrangling or decisions about whether to evaluate. This benefit follows from the customer-driven and leverage principles. If the customer defines the need and agrees to co-invest, the line of accountability is drawn: customers' use of the service and decisions to reinvest down the line will prove or disprove the pudding. This by itself may not ensure that all of an initiative's public purposes are being met. However, if designed correctly, it can at least establish that real demand exists among intended beneficiaries, and that the marketplace believes the investment can earn a decent return.

All these principles shaping *Third Wave* governance — demand, leverage, competition and feedback — exist in functioning marketplaces. Indeed, what *Third Wave* program approaches have in common is that they go about getting some needed resource or service to the community by strengthening the operation of existing marketplaces, or by stimulating new ones. While *First* and *Second Wave* programs advanced public goals by implanting government as a sole supplier, *Third Wave* initiatives encourage markets to serve important public ends.

Third Wave initiatives seek to achieve public economic ends by empowering the consumer beneficiaries, cultivating competitive public and private suppliers, and designing new measurement, information, and reward systems. If local workers need more training, *Third Wave* efforts don't begin by establishing a public program to train them. Instead, the skill-deficient industries are encouraged to cooperatively define their training needs, thus creating effective demand. Then government can work to link the industries with private and public education service vendors that can bid for the training concession.

Public incentives may be required at the outset to induce people and institutions to think and act with each other in new ways. Those the community believes should have services, but who lack the resources to purchase them, may require subsidies to purchase services. Nonetheless, the goal is a functioning marketplace, independent of the day-to-day management by a government bureaucracy, that can provide area businesses and citizens with crucial world-class goods and services. The same holds true whether the resource in demand is education, capital, technology transfer capacity, or growth-management information.

However, as state and local governments increasingly employ *Third Wave* market-building approaches, important questions are being raised. How can government justify depending on private institutions to achieve public purposes? How can government advance critical public values such as fairness, inclusion, and equity when many of its services are delivered by private organizations, some of which are motivated solely by profit? As *Third Wave* experiments spread across the U.S., governments are being forced to find answers to these questions.

America's economic system has long operated on the assumption that free markets offer the most efficient way to produce and deliver the goods and services people want. However, even while relying on private enterprises to meet many essential needs, America has constantly reiterated the belief that markets are social creations. Their right to exist is justified by their social usefulness to the community. Well-functioning marketplaces that damage the community, such as those that produce and distribute destructive drugs or child pornography, are banned by law.

The tenet — that markets are creations of society — has served as the basic justification for citizens to work through government to regulate private markets, ensuring that their operation is consistent with public values and needs. Prescription drugs are developed and sold exclusively by private companies, but public assurance of their safety and effectiveness has been deemed essential.

Reinventing Government

The *Third Wave* is just beginning to build; we expect it will crest in the coming decade. As one might expect, the market-building activities common to *Third Wave* governance are forcing the engaged state and local agencies to restructure.

The role of government is changing. Operating less as a mass supplier of particular goods or services, public agencies are discovering the need to act more as facilitators, brokers, and seed capitalists. As the past decade has taught many excellent private corporations, traditional command-style bureaucracies cannot perform this more entrepreneurial role as well.

Efforts to reinvent the government organization itself will surely spring up across the nation as the 1990s unfold. Just as private sector organizations have had to restructure themselves to meet new global demands, so will public organizations have to adapt.

—Doug Ross, President, Corporation for Enterprise Development; and Robert E. Friedman, Chair of the Board, Corporation for Enterprise Development

Also contributing to this article were Mitchell Horowitz and Janet Topolsky.

Arizona Income Growth Smallest Since '82

Arizona's wage and salary employment grew significantly faster than the rest of the country in 1990 (2.5 vs. 1.6 percent), but the state didn't get much richer in the process, according to preliminary personal income figures released by the U.S. Department of Commerce's Bureau of Economic Analysis in mid-April. In fact, because of an increase in in-migration and several other factors, Arizonans lost ground economically to residents of most states and the country as a whole.

BEA data show that total personal income for Arizona households increased a modest 6.0 percent in 1990 over 1989 to $59.7 billion, while the state's per-capita personal income rose a meager 2.8 percent over the same time period to $16,297, up from $15,846 in 1989. For the country as a whole, total personal income (TPI) grew 6.4 percent in 1990, while per-capita personal income (PPI) increased 5.8 percent.

Total personal income includes: earnings by place of work[1] less personal contributions for social insurance and adjustments for residency; dividends, interest, and rent (DIR); and transfer payments. Per-capita personal income is total personal income divided by a state's resident-based population.[2]

Among all states and Washington D.C., Arizona ranked 40th in personal income growth in '90, a far cry from the early- and mid-'80s when Arizona was among the top tier of states in personal income gains (see Figure 1). In 1988 and '89, the state racked up respectable total personal income gains of 7.3 and 7.6 percent, but still well below average annual increases of 13.9 percent in the 1970s and 9.1 percent in the '80s. Overall, Arizona ranked 25th in total personal income last year and 34th in per-capita personal income, down from rankings of 24th and 31st in those respective categories in 1989.

Arizona's personal income increase also lagged its Southwest Region average gain (7.5 percent) in 1990 with the state having smaller increases than the three other states (New Mexico, Texas, and Oklahoma) in its region. The top-rated area for personal income growth last year was the Far West Region — which includes California, Nevada, Oregon, and Washington — with an increase of 7.7 percent. Not surprisingly, Nevada led all states in personal income growth at 10.7 percent, although that was down from 13.6 percent in '89.

A sluggish fourth quarter for TPI (0.8 percent gain), due primarily to a drop-off in wage and salary payroll income — particularly in the construction sector (-2.5 percent) — contributed substantially to Arizona's subpar performance in 1990. Payroll wages, which make up a major portion of TPI, increased only 0.4 percent during the final quarter, compared to gains of 1.1, 1.8, and 2.0 percent, respectively, in the first three quarters of the year. One consolation for Arizona was that the fourth-quarter slide was widespread among most states and across all industries.

A sharp decline in average annual growth of payroll wages the past two years — 4.7

Table 1. Arizona and U.S. Per-Capita Personal Income(PPI), Actual and Real, and PFI Growth Rates, 1970-1990[1,2]

Year	Arizona Actual	Arizona Real[3]	Pct. Increase	United States Actual	United States Real[3]	Pct. of U.S.
1970	$3,789	$12,763	10.3%	$4,051	$13,646	94%
1971	4,071	13,138	7.4	4,296	13,864	95
1972	4,420	13,820	8.6	4,665	14,596	95
1973	4,851	14,280	9.8	5,182	15,254	94
1974	5,240	13,892	8.0	5,648	14,974	93
1975	5,408	13,138	3.2	6,073	14,754	89
1976	5,893	13,536	9.0	6,651	15,277	89
1977	6,436	13,881	9.2	7,294	15,731	88
1978	7,367	14,768	14.5	8,136	16,309	91
1979	8,318	14,975	12.9	9,033	16,262	92
1980	9,172	14,548	10.3	9,919	15,733	92
1981	10,094	14,514	10.1	10,949	15,743	92
1982	10,312	13,967	2.2	11,480	15,549	90
1983	11,053	14,504	7.2	12,098	15,876	91
1984	12,054	15,163	9.1	13,114	16,497	92
1985	12,957	15,724	7.5	13,896	16,864	93
1986	13,645	16,272	5.3	14,597	17,407	93
1987	14,369	16,532	5.3	15,424	17,746	93
1988	15,034	16,610	4.6	16,511	18,242	91
1989	15,846	16,702	5.4	17,594	18,545	90
1990p	16,297	16,297	2.8	18,685	18,685	87

Notes:

1. The 1990 figures are based on 1990 population counts which are subject to possible correction for undercount or overcount. The U.S. Departmnet of Commerce is considering whether to correct these counts and will publish corrected counts, if any, no later than July 15, 1991.
2. For years prior to 1990, the figures are based on the Bureau of the Census Mid-year Population Estimates. The 1981 to 1989 estimates have not been revised to reflect the 1990 population counts.
3. Adjusted for inflation to 1990 dollars using U.S. Consumer Price Index.

p = preliminary

Source: Table SA2, Per-Capita Personal Income, Regional Economic Information System, U.S. Department of Commerce, Bureau of Economic Analysis, April 1991

Table 2. Per-Capita Personal Income for Arizona Metropolitan Areas and Counties, 1988-89

	1988	1989	Pct. Change
MSAs			
Phoenix	$16,815	$17,705	5.3%
Tucson	14,387	15,203	5.7
Yuma	12,664	12,725	4.8
Counties			
Apache	$ 6,864	$ 7,406	7.9%
Cochise	11,027	11,564	4.9
Coconino	11,621	11,947	2.8
Gila	10,412	11,272	8.3
Graham	9,534	10,312	8.2
Greenlee	11,181	12,512	12.0
La Paz	12,127	12,812	5.6
Maricopa	16,815	17,705	5.3
Mohave	11,343	12,046	6.2
Navajo	8,938	9,261	3.6
Pima	14,387	15,203	5.7
Pinal	11,382	12,064	6.0
Santa Cruz	11,823	12,845	8.6
Yavapai	13,089	14,020	7.1
Yuma[1]	12,664	12,725	0.5

1. La Paz County was separated from Yuma County on January 1, 1983.

Source: U.S. Department of Comerce, Bureau of Economic Analysis, April 1991

percent in '89 and 4.5 percent in '90, compared to annual average gains of 10.5 percent between '85 and '88 — has also contributed to a major shift in the mix of the three major components of TPI — net earnings by place of residence[3]; dividends, interest, and rent (DIR); and transfer payments.

Whereas between 1985 and 1988, net earnings by place of residence ranged between 67.1 and 67.3 percent of Arizona's TPI, in 1989 and '90 this category's share of TPI dropped to 65.2 and 64.2 percent, respectively. Conversely, DIR's share of TPI the last two years has increased to 19.5 and 19.7, respectively, compared to a range of 17.8 to 18.3 percent between '85 and '88. And transfer payments " composed primarily of Social Security, Medicaid, and unemployment insurance benefits " has seen its share of TPI jump to 15.3 percent in '89 and 16.1 percent in '90, compared to a range of 14.6 to 15.0 percent those four years.

What these figures show is that retirees, who account for the greatest share of DIR and transfer payments, are playing a larger and larger role in the state's personal income figures. (Arizona ranked third among states in DIR's proportion of TPI in '89.) Unfortunately, because retirees also tend to make less money than an average worker, the higher share of DIR and transfer payments is one signal of declining growth in TPI and PPI.

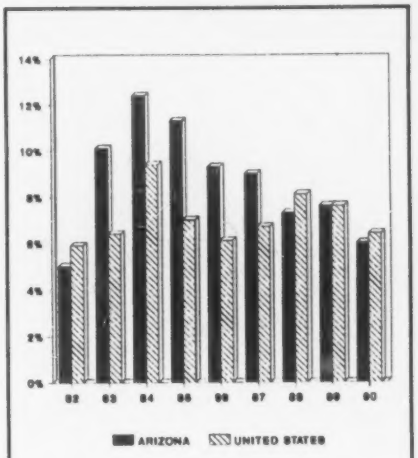
Arizona's per-capita personal income in 1990, meanwhile, fell to a somewhat alarming 87 percent of the U.S. average — the lowest amount in 22 years — down from 90 percent of the U.S. average in 1989 and 93 percent during the years 1984 through '86 (see Table 1). And when inflation is factored in, the state's real PPI declined 2.6 percent last year, compared to an increase of 0.4 percent for U.S. real PPI.[4] The last time the state had a negative real PPI was in 1982 when it dropped 3.6 percent.

Arizona's divergence from the U.S. average coincides with a widening gap in average annual pay between the state and the nation during the past few years (see *Arizona LMI Newsletter*, October 1989 and 1990). This is partially due to the growth of low-paying, service-sector jobs and decline in employment in the high-paying, goods-producing sector (e.g., manufacturing, construction).

Also slowing down per-capita personal income growth in Arizona last year was a one percentage point increase in population growth (3.1 percent) over 1989. It was the largest population rise in the state since 1987 when it increased 3.5 percent.

An interesting footnote to the state's declining growth in per-capita income, however, is that in recent recession periods (74-75 and 80-82), Arizona's percentage of U.S. per-capita income also fell. Then, when the recession ended and the goods-producing sector picked up, so did the state's percentage of the nation's PPI. Whether this will be the current recession period remains to be seen.

Figure 1. Arizona vs. U.S. Personal Income Growth Rates, 1982-90[1]



1. 1990 growth rate is preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 1991

Finally, besides state data for 1990, BEA also released 1989 TPI and PPI figures for metropolitan statistical areas (MSAs) and counties. Of note in Arizona was Greenlee County's 12.0 percent rise in PPI — fueled by increases in mining wages — that far outdistanced any other county's rise in the state (see Table 2). The state's three MSAs (Maricopa, Pima and Yuma), meanwhile, all had modest PPI increases.

—Brent Fine
Arizona LMI Newsletter Editor

Notes:

1. Earnings by place of work equals wages and salaries, other labor income, and farm and nonfarm proprietorship income.
2. Per-capita personal income figures are based on 1990 U.S. census population counts which are subject to possible correction for undercount. Final corrected counts will be published no later than July 15, 1991.
3. Net earnings by place of residence equals earnings by place of work, less personal contributions for social insurance, plus an adjustment for residency.
4. Inflation as measured by the U.S. Consumer Price Index, which increased 5.4 percent in 1990.

Auto Remanufacturing Plant Proposed for Valley; Employment of 1,000 Suggested

"New Developments" is featured each month as a service to our readers. This section is a compilation of public announcements and articles from newspapers and periodicals about events significant to Arizona labor markets. Due to space limitations, however, an exhaustive list of business news is not possible. In addition, the Arizona LMI Newsletter is not responsible for incorrect information reported by these sources.

MANUFACTURING — A former Valley resident is looking at sites in the Phoenix area for a **50-acre auto ranch** to remanufacture and sell used cars. Automotive entrepreneur **Malcolm Bricklin**, who formerly lived in Scottsdale and brought the Subaru car to the United States, wants to **rebuild cars up to 10 years old**. A minimum amount of rebuilding work would include: new tires, battery, shocks, brakes, spark plugs, belts, hoses, and windshield wipers; and anti-theft devices. Bricklin expects the proposed $60 million facility — which would include a plant, sales area, and test track — to employ about 1,000 people.

It's not known if the remanufacturing plant would need to include air bags, but certainly new car manufacturers are including them in more and more models. And **TRW Inc. in Mesa** is gearing up for the expected increase in business. TRW, which makes parts for air bags, expects to see **employment increase five-fold** within five years at its Mesa facilities. Currently employing about 1,000 workers, TRW has only used about one-tenth of the 640 acres it owns in the Mesa area.

Kalil Bottling Co., which recently acquired the rights to distribute a variety of Seven-Up products in Phoenix and Tucson, has **hired 90 employees** and expects to add 40 more by July. Many of the workers will fill some of the 140 positions lost when Seven-Up Bottling Co. of Phoenix closed in April. New jobs include salespersons, fountain and vending service people, store-shelf merchandisers, and part-time loaders.

Group IX Aerospace Systems of Los Angeles is expected to **buy an Arizona sheet-metal and precision-machinery manufacturer** by the end of May, then move the operation to Huachuca City where it plans to manufacturer and repair group-support and material-handling equipment for airframe manufactures and airlines. Group IX plans to build a 50,000-square-foot facility, which will employ more than 100 workers, a majority of which will come from the purchased company.

A maker of instruments used in heating and cooling units is moving its operations from California to Phoenix. **Lakewood Instruments of Compton, Calif.**, has purchased a 25,000-square-foot building at 4857 W. Van Buren St. and expects to **employ about 50 workers** when it begins operations in September.

Stone Forest Industries has partially reopened its sawmill operation in the eastern Arizona town of Eager. Stone Forest, which laid off 400 workers when it closed its lumber plant in August, brought back one of three shifts in early April. Lack of demand and the strength of environmental groups protecting area forests, were cited as reasons for the closure.

CONSTRUCTION — The new-home market appears on the mend in the Valley as **permits for construction of single-family units jumped about 50 percent** in the first quarter of this year compared to the fourth quarter of 1990, according to two separate surveys. One analyst predicts permits for new homes to reach 12,500 this year, up from 10,614 in 1990 and 11,825 in '89. Lower interest rates, pent-up demand, and fewer repossessed houses on the market were responsible for the jump.

The revived housing market apparently wasn't enough to keep one Valley builder — **U.S. Home Corp.** — from major financial difficulty. U.S. Home, which has seven subdivisions in the Phoenix area, **filed for protection in U.S. Bankruptcy Court in New York**. This, despite the fact the Houston-based builder sold 213 homes in the Valley in 1990, although that was down from 349 sold in '89 and 414 in '88. U.S. Home, which has asked to reorganize, lost about $100 million in 1990.

TRADE — **The Scottsdale Galleria**, which eventually will include 165 shops, a number of restaurants, and movie theaters in its 1.3 million square feet of space, **opened in late May**. About 30 shops (40 percent of the 400,000 square feet of retail space) was expected to be ready for the opening, while 43 businesses are still under construction. The colorful Scottsdale complex, which features a four-level atrium and a musical water display, when completed will also include a 340-seat IMAX theater, a miniature golf course, a walk-through seawater aquarium, and 2,000 covered parking spaces.

Dallas-based software retailer, **Comp USA, plans to open one of 21 new "superstores" at the Chris-Town Mall** in Phoenix by the fall. The 20,000-square-foot store, which will stock about 5,000 items, is expected to employ about 70 people. Comp USA currently has 17 stores.

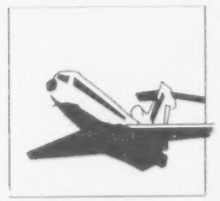
A **voluntary severance package** has been **accepted by about 200 of 1,800 eligible employees of Safeway**, the state's largest supermarket chain. The response to the plan, which offered full-time workers $7,500 and part-time workers $5,000, was expected to keep Safeway from laying off employees for the time being. Safeway has 85 stores and more than 6,400 workers in Arizona.

SERVICES — Phoenix-based **U-Haul International Inc.**, which laid off 100 employees at its company headquarters in April due to declining earnings, has been **awarded an exclusive contract to provide moving vehicles to Navy and Marine Corps personnel**. Military workers will be paid a cash incentive to use U-Haul vehicles in place of using a standard moving company. U-Haul, which laid off 400 workers in 1990, employs about 1,500 workers in Phoenix and 11,000 people in the United States and Canada.

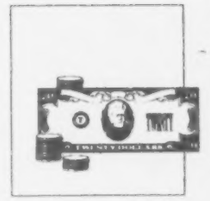
The **Persian Gulf War kept visitors away from Arizona hotels and motels in the first two months of the year**, an industry analyst says. Until the war, tourism had been increasing. Statewide occupancy rates for January and February were 68.1 percent, down from 72.9 percent during the same period in 1990. The state is coming off a poor performance in 1990, when occupancies increased only one percentage point, to 63.6 percent.

The outlook for **Fast Foto Inc.**, a Phoenix-based, photo-developing franchise, doesn't look promising after it recently **requested to convert a Chapter 11 bankruptcy filing to Chapter 7**. The change was warranted because the company was unable to meeting current expenses. All but 26 of 101 Fast 1-Hour Foto locations in four states have been shut down. Serendipity Inc., a California investment group, is seeking to purchase the 26 remaining outlets, all in Arizona.

TRANSPORTATION, COMMUNICATIONS, and PUBLIC UTILITIES — The **international concourse at Terminal 4 of Sky Harbor International Airport** is expected to **open this summer**, however little activity is expected at the $26 million facility for several years. The city of Phoenix is wooing a major foreign carrier, such as KLM Royal Dutch Airlines or Lufthansa German Airlines, but daily service isn't likely before 1994. It's estimated that a daily flight from London to Phoenix would bring $37 million in annual expenditures to the Valley economy. America West Airlines currently is the only major airline that provides international service with one-stop flights to Nagoya, Japan. However, America West is gearing up to serve Taipei, Taiwan, and Hong Kong by the end of the year.



FINANCE, INSURANCE AND REAL ESTATE —**Caliber Bank** expects to more than **double the number of its Arizona branches this year**, from 4 to 10, through acquisition of locations of failed thrifts. Las Vegas-based Caliber recently agreed to buy three former Western Savings branches — in Fiesta Mall, Paradise Valley Mall, and north-central Phoenix — after previously picking up two former Arizona Commerce Bank locations. Caliber, which now has nine branches, hopes to pick up another branch from a failed savings and loan this year and to have 23 branches in Arizona within five years.



MISCELLANEOUS — **Arizona ranked seventh** in the country in number of **U.S. Bankruptcy Court cases** filed in 1990. Bankruptcy filings, which totaled 18,385, increased 13 percent over 1989. Arizona's five federal bankruptcy judges, however, are considered to have the busiest caseload for any district due to the number of business reorganizations. Arizona judges averaged 206 business reorganizations in 1990, second only to the Boston district, which averaged 238 reorganizations per judge.

According to the Phoenix & Valley of the Sun Convention & Visitors Bureau, the **state is expected to lose $132 million** in revenue and $10.1 million in taxes between 1987 and 1996 from convention cancellations **due to the lack of a Martin Luther King paid holiday**. The lost revenue also translates into a cost of 3,400 jobs that would have likely been created if the conventions had not been pulled. Since last November, 68 groups representing 62,000 delegates have canceled conventions in the Valley through 1996. The revenue and tax data were compiled by Arizona State University.

The U.S. Department of Labor has acknowledged it is **investigating alleged overtime violations by Smith's Food and Drug Centers Inc.** An employee of the Salt Lake City-based supermarket chain, which employs about 1,500 people at six Valley locations, has alleged that workers were required to put in overtime without additional pay. The company says it is conducting its own investigation. If found guilty, Smith's would be required to pay employees back wages.

ARIZONA LMI NEWSLETTER
SITE CODE 733A
P.O. BOX 6123
PHOENIX, AZ 85005-6123
(602) 542-3871

Brent Fine, Editor
Linda Van Calcar, Word Processor

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